

September 12, 2023^(Revised)

Greenpanel Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working capital facilities	100.00	115.00	[ICRA]A+ (Stable); reaffirmed
Fund-based – Term loan	80.00	-	-
Non-fund based facilities	100.00	115.00	[ICRA]A1+; reaffirmed
Unallocated – Long-term	60.00	10.00	[ICRA]A+ (Stable); reaffirmed
Total	340.00	240.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings for Greenpanel Industries Limited's (GIL) factors in its strong operational profile and healthy financial risk profile. GIL is the market leader in the domestic medium density fibreboard (MDF) industry with a market share of around 27%¹ as of March 2023, supported by established brand, wide distribution network and the extensive experience of its promoters in the wood-based interior infrastructure and decorative segment. GIL's operating income (OI) increased by 10% to Rs. 1,783 crore in FY2023, driven primarily by 15% rise in MDF sales. Despite moderation in overall realisations due to change in product mix (with recently launched product to substitute MDF imports) and increasing competitive intensity in domestic market, ICRA expects stable revenues in FY2024 supported by 10-12% increase in MDF volumes. In Q1 FY2024, the OI declined by 17% YoY due to the shutdown of Rudrapur plant for 19 days in April 2023. ICRA notes that GIL is net debt negative at Rs. 116.1 crore as of March 2023. Though GIL is undertaking capex of around Rs. 600 crore towards MDF plant with a capacity of 2,31,000 cubic metre (CBM) per annum capacity (expected commercial operations date [CoD]: Q1 FY2025) funded in debt to equity of around 1:1, the debt protection metrics are likely to remain comfortable with Net Debt/OPBITDA estimated at below 1 times as of March 2024 (PY: 0.3 times) and DSCR higher than 4 times in FY2024 (PY: 5.9 times as on March 31, 2023). The rating also takes comfort from GIL's strong liquidity with unencumbered cash and cash equivalents of Rs. 290.7 crore as on June 30, 2023 and average cushion in the working capital limits of around Rs. 100 crore.

However, the ratings are constrained by the expected increase in competition, given the large capacity additions in the industry and continued pressure from imports in the near term. The MDF realisations have declined over the last two quarters and are likely to remain under pressure in the near term. GIL's OPBITDA margins decreased by 316 bps YoY to 23.5% in FY2023 due to higher power and fuel expenses and further to 17.0% in Q1 FY2024 on account of temporary plant shut down for maintenance, higher raw material prices and marketing expenses. Nevertheless, the operating margins are projected to improve to over 20% in FY2024, supported by recovery in revenue over the remaining nine months, backed by higher volumes and rationalisation of fixed overhead expenses. The ratings are also constrained by inherent project implementation risk for the ongoing capex with respect to possible time and cost overruns, and post-implementation risk related to ramp-up and stabilisation of the new plant. The ratings are also constrained by vulnerability of demand to real estate cycles and exposure to forex risks.

The Stable outlook on the long-term rating reflects ICRA's opinion that GIL's credit profile will be supported by its strong brand presence, wide distribution network, healthy leverage and strong liquidity position.

¹ As per GIL annual report for FY2023

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the wood-based interior infrastructure segment – GIL’s promoters have more than two decades of experience in the wood-based interior infrastructure segment. The company was incorporated in December 2017 and remained dormant till the demerger of the MDF division and a part of the plywood division (effective July 1, 2019) of Greenply Industries Limited. However, the ply division and the MDF division were operative under Greenply Industries Limited since 1990 and 2010, respectively.

Leading player in the MDF segment – GIL is the market leader in the domestic MDF industry with market share of 27% as of March 2023, supported by established brand wide distribution network and the extensive experience of its promoters in the wood-based interior infrastructure and decorative segment. It has a production capacity of 6,60,000 CBM per annum. It enjoys a strong brand image and the products are sold under the brand, Greenpanel. The MDF business remains the mainstay of GIL’s revenues and profitability, which accounted for 86% of its total revenues and 94% of the total PBIT in FY2023. Its geographically diversified production base with manufacturing units in North India (Uttarakhand) and South India (Andhra Pradesh) mitigates the risks arising from adverse demand environment in a particular region. Its plants are strategically located near the sources of raw materials. The operating profile is further strengthened by GIL’s extensive network of 2,300 distributors and more than 12,500 retailers that are serviced by 17 branches across India.

Comfortable financial risk profile – GIL’s OI increased by 10% to Rs. 1,783 crore in FY2023, driven primarily by 15% growth in MDF sales. Despite moderation in overall realisations due to change in product mix (with recently launched product to substitute MDF imports) and increasing competitive intensity in domestic market, ICRA expects stable revenues in FY2024 supported by 10-12% increase in MDF volumes. In Q1 FY2024, the OI declined by 17% YoY due to the shutdown of Rudrapur plant for 19 days in April 2023. ICRA notes that GIL is net debt negative at Rs. 116.1 crore as of March 2023. Though GIL is undertaking capex of around Rs. 600 crore towards MDF plant with a capacity of 2,31,000 CBM per annum capacity (expected commercial operations date [CoD]: Q1 FY2025) funded in debt to equity of around 1:1, the debt protection metrics are likely to remain comfortable with Net Debt/OPBITDA estimated at below 1 times as of March 2024 (PY: 0.3 times) and DSCR higher than 4 times in FY2024 (PY: 5.9 times as on March 31, 2023).

Credit challenges

Increasing competition and threat of imports leading to pricing pressure – The increasing competition in the MDF industry given the upcoming planned capex and rising supply from imports is likely to exert pressure on prices. The MDF realisations have declined over the last two quarters and are likely to remain under pressure in the near term. GIL’s OPBITDA margins declined by 316 bps YoY to 23.5% in FY2023 due to higher power and fuel expenses and further to 17.0% in Q1 FY2024 on account of plant shutdown, higher raw material prices and marketing expenses. However, the operating margins are expected to improve to over 20% in FY2024 supported by recovery in revenue over the remaining nine months backed by higher volumes and rationalisation of fixed overhead expenses. ICRA notes the industry’s exposure to vulnerability of demand to real estate cycles.

Project implementation risk associated with large ongoing capex – The company is exposed to the inherent project implementation risk for the ongoing capex with respect to time and cost overruns, and post implementation risk related to ramp-up and stabilisation of the new plant. GIL is undertaking capex of around Rs. 600 crore towards MDF of 2,31,000 CBM per annum capacity (expected commercial operations date [CoD]: Q1 FY2025).

Exposure to forex risk – The total outstanding foreign currency loan stood at Rs. 167.4 crore as on March 31, 2023. The company has further received sanction of Rs. 290 crore of foreign currency loan to fund its ongoing capex. This exposes GIL to forex risks as a portion of the same remains unhedged. However, this risk is expected to be mitigated to an extent by its export earnings.

Environmental and social risks

Manufacturing of wooden panel products requires a substantial use of timber and wooden logs, which are primarily procured from timber plantations, while there is some dependence on forest wood, which is imported. GIL also emits formaldehyde during manufacturing and consumes fuel with dependence on fossil fuels. Increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may lead to higher costs for GIL. The profitability and cash flows could be under pressure if it is not able to fully pass on the higher compliance costs to the customers. The social risks relate to the safety of employees involved in the manufacturing and transportation of wood panel products and GIL has made investments in mechanisation to enhance physical safety.

Liquidity position: Strong

The company's liquidity is strong, with unencumbered cash and cash equivalents of Rs. 290.7 crore as on June 30, 2023. It has repayment obligation of around Rs. 60 crore for FY2024, which can be met comfortably by its cash flow from operations. As on June 30, 2023, it had available unutilised sanctioned limits of ~Rs. 100 crore, which supports its liquidity. GIL is setting up a new MDF plant at an additional capacity of 2,31,000 CBM per annum with a budgeted cost of Rs. 600 crore, of which Rs. 290 crore (sanctioned in Q2 FY2024) will be debt funded and the remaining will be funded by its internal accruals. It is likely to maintain cash and bank balance of over Rs. 150 crore, on a sustained basis, despite the commitments for the ongoing capex.

Rating sensitivities

Positive factors – ICRA may upgrade the company's ratings if there is a sustained increase in its revenues and improvement in its profitability, while maintaining strong debt protection metrics and liquidity position.

Negative factors – ICRA could downgrade the ratings if there is a significant sustained pressure on GIL's revenues and earnings, or higher-than-anticipated debt-funded capex adversely impacts its debt protection metrics and liquidity position on a sustained basis. Specific credit metric include Net debt/OPBIDTA above 1.5 times on a prolonged basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials, which include subsidiary as per Annexure II.

About the company

Greenpanel Industries Limited (GIL) was incorporated in December 2017 and remained dormant till the demerger of the MDF segment and part of plywood segment of Greenply Industries Limited into GIL. The de-merger was effective from July 1, 2019.

The company manufactures wood-based panel products, which includes MDF boards, plywood and allied products. It has two manufacturing facilities located in Pantnagar, Uttarakhand and Chittoor, Andhra Pradesh, with a total capacity of 6,60,000 CBM of MDF and 10.5 million square metres of plywood, Uttarakhand. The products manufactured by GIL are sold across the country under the brand name of Greenpanel. The company is setting up a new MDF plant at its existing manufacturing unit in Chittoor, Andhra Pradesh, with an additional installed capacity of 231,000 CBM per annum, which is expected to commence operations from Q1 FY2025 onwards.

Key financial indicators (audited)

GIL Consolidated	FY2021	FY2022	FY2023
Operating income	1,020.8	1,625.0	1,782.9
PAT	68.8	240.5	256.5
OPBDIT/OI	20.3%	26.7%	23.5%
PAT/OI	6.7%	14.8%	14.4%
Total outside liabilities/Tangible net worth (times)	1.0	0.6	0.4
Total debt/OPBDIT (times)	2.3	0.7	0.5
Interest coverage (times)	5.6	25.3	22.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore, all ratios as per ICRA's calculations
Source: GIL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years							
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021		
				Sep 12, 2023	Aug 18, 2022	Jul 22, 2022	Jan 07, 2022	Dec 10, 2021	Mar 03, 2021	Feb 22, 2021	
1	Fund-based – Working capital facilities	Long term	115.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund-based – Term loan	Long-term	-	-	-	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-fund-based facilities	Short-term	115.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+
4	Unallocated – Long-term	Long term	10.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Working capital facilities	Simple
Non-fund based facilities	Very Simple
Unallocated – Long-term	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#).

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Working capital facilities	-	-	-	115.00	[ICRA]A+ (Stable)
NA	Non-fund based facilities	-	-	-	115.00	[ICRA]A1+
NA	Unallocated – Long-term	-	-	-	10.00	[ICRA]A+ (Stable)

Source: GIL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation approach
Greenpanel Singapore Pte. Limited	100%	100%

As per Annual Report for FY2023

Corrigendum

Document dated September 12, 2023 has been revised with "greenfield capex" revised to "capex" in "Rationale" section on page number 1 and "Key Rating Considerations" section on page number 2.

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